

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

THE KAYO CORP.,

Plaintiff,

v.

FILA U.S.A., INC.,

Defendant.

Case No. 18-cv-03981-AKH

**JUDGMENT AGAINST
FILA U.S.A., INC.**

This matter having come before the Court for trial pursuant to Rule 52(a) of the Federal Rules of Civil Procedure on July 6, 2022, both parties appearing by counsel, the Court having reviewed the pleadings filed herein and the evidence before the Court and heard arguments of counsel, all as set forth in the July 6, 2022 transcript attached hereto as **Exhibit A**, and the Court being fully advised of all relevant information and evidence, and having entered its findings of fact and conclusions of law on the record; now, therefore, it is:

ADJUDGED AND DECREED that Plaintiff The Kayo Corp. (“Plaintiff”) is granted Judgment against Defendant Fila U.S.A., Inc. (“Defendant” and/or “Fila”) and Judgment is hereby entered in the amount of \$732,666.00 plus nine (9) percent interest in the amount of \$177,116.00 making the total amount of the Judgment \$909,776.00. Plaintiff will also be awarded costs as the prevailing party to be taxed by the Clerk on notice.

ENTER:

/s/ Alvin K. Hellerstein

Alvin K. Hellerstein
U.S. District Judge

Dated: August 1, 2022

EXHIBIT A

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1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF NEW YORK
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3 THE KAYO CORP.,

4 Plaintiff,

5 v.

18 Civ. 3981 (AKH)

6 FILA U.S.A., INC.,

7 Defendant.
8 -----x

New York, N.Y.
July 6, 2022
2:34 p.m.

10 Before:

11 HON. ALVIN K. HELLERSTEIN,

District Judge

13 APPEARANCES

14 FOSTER GARVEY PC
15 Attorneys for Plaintiff
16 BY: ANDREW J. GOODMAN

17 ARENT FOX LLP
18 Attorneys for Defendant
19 BY: KATHLEEN R. HEILMAN
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21
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23
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1 (Case called)

2 MR. GOODMAN: For plaintiff, Andrew Goodman, Foster
3 Garvey.

4 Your Honor, would you prefer with or without masks?

5 THE COURT: If you are comfortable without masks, I
6 would rather without masks.

7 So it's Andrew Goodman for the plaintiff, Kayo?

8 MR. GOODMAN: Yes, your Honor.

9 THE COURT: And Katie Heilman for the defendant, Fila?

10 MS. HEILMAN: That's correct, your Honor.

11 THE COURT: So let me work out some ground rules with
12 you. The closest analogy to what we're doing is a summary
13 trial. I've told you before that you folks are both ready for
14 trial, you've gone through mediation without success. I told
15 you that because of a jam-up of criminal trials, it will be
16 well into the fall and perhaps the winter before I could reach
17 you, so I suggested this procedure, the form of a summary
18 trial.

19 I thought that the following might be a good way to
20 go: Mr. Goodman will go first for half hour, Ms. Heilman will
21 then go for a half hour, you'll each have 15 minutes to rebut
22 the other, and I'll be making comments interspersed along the
23 way.

24 What is it that you would like from me, Mr. Goodman?

25 MR. GOODMAN: A judgment, your Honor, in the sum of

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1 one million --

2 THE COURT: No, I know your addendum. At the end of
3 today, should I be declaring a judgment for one side or the
4 other? I think not.

5 MR. GOODMAN: I think, your Honor, what would be most
6 helpful would be a determination that the contract required
7 notice of default, which was not given.

8 THE COURT: That's the key issue of the case?

9 MR. GOODMAN: Yes, your Honor.

10 THE COURT: Do you want me to deliver that without
11 witnesses?

12 MR. GOODMAN: Yes, your Honor.

13 THE COURT: How about you, Ms. Heilman?

14 MS. HEILMAN: I think, your Honor, that ruling that
15 the plaintiff's performance was not reasonable and that the
16 plaintiff failed to perform --

17 THE COURT: Well, you want me to determine the case,
18 also?

19 MS. HEILMAN: I believe you can. I think, typically,
20 that's a fact issue. I think here, the record is relatively
21 black and white and you could make that determination based on
22 the evidence that we present today.

23 THE COURT: Will there be any credibility issues?

24 MS. HEILMAN: I don't believe so. I think you could
25 make that determination based on the documents, determine that

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1 there was no performance, and that the agreement automatically
2 terminated or was abandoned.

3 THE COURT: In other words, you want me to make the
4 factual determinations, if I'm able to, from your delivery of
5 your arguments at the end of the day, in effect turning this
6 into a bench trial on a Rule 52 type of findings of fact and
7 conclusions of law at the end of it.

8 MR. GOODMAN: Your Honor, from plaintiff's
9 perspective, there are factual issues as to performance, if you
10 get to performance. If you find on the absence of notice, you
11 don't have to get to performance, but if your Honor finds that
12 notice was either not required or given, then we do get to the
13 performance issues, your Honor. There we do have live
14 testimony.

15 THE COURT: I take it from what you want is that both
16 of you would like me, if I can, to make whatever determinations
17 I'm able to make on the basis of the record you present today.
18 If I can't rule, just figure out then what we do with those and
19 how we will proceed.

20 Is that satisfactory, Mr. Goodman?

21 MR. GOODMAN: Yes, your Honor.

22 THE COURT: And Ms. Heilman?

23 MS. HEILMAN: Yes, your Honor.

24 THE COURT: The next thing I want from both of you,
25 because this is not an ordinary way of proceeding, is a

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1 statement that you will not seek to recuse me on the basis of
2 knowledge that I'm acquiring today.

3 MR. GOODMAN: Your Honor, plaintiff definitely will
4 not seek to recuse you based on today's proceeding.

5 THE COURT: Ms. Heilman.

6 MS. HEILMAN: I will not, as well.

7 THE COURT: Okay. So then we can proceed.

8 I do not plan to conduct any mediations with you today
9 or maybe ever, and nothing will be *ex parte*. So everything
10 will be in open court and on the record.

11 So why don't we begin with Mr. Goodman. You have a
12 half hour. It is now twenty minutes to 3:00.

13 MR. GOODMAN: May I sit, your Honor, or should I
14 stand?

15 THE COURT: Whatever is more convenient to you.

16 MR. GOODMAN: Okay. It will be easier, given my
17 glasses and the documents, to sit.

18 THE COURT: It's okay with me.

19 MR. GOODMAN: Thank you, your Honor.

20 So obviously the place where we start is the agreement
21 itself. The agreement is in the binder we have given your
22 Honor, which is the one with the orange cover.

23 THE COURT: I have the agreement.

24 MR. GOODMAN: We are dealing with paragraph 2.1, that
25 proviso that begins the last three lines of page 2. With

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1 respect to Zumiez, Pacific Sunwear, and Tilly's. The licensor
2 shall have the right to sell -- licensor would be Fila. Fila
3 shall have the right to sell products branded with the Fila and
4 F-Box trademarks that are not intended specifically for the
5 skateboarding market so long as the licensor consults with the
6 licensee prior to any sale being made and licensee shall be
7 entitled to a commission of 7 percent of the net purchase price
8 received by licensor.

9 The parties understood that this required Fila to go
10 through Kayo to get to those three outlets. On document No. 6
11 in the binder, your Honor, is a series of emails, I would like
12 to point your Honor to the second page that bears Bates number
13 Fila 000461.

14 THE COURT: This is tab 6?

15 MR. GOODMAN: Yes, your Honor.

16 THE COURT: All right.

17 MR. GOODMAN: Actually, I'm sorry. Wrong email. I
18 want to get to that one later. I want to look at the January
19 18th email.

20 THE COURT: Which one?

21 MR. GOODMAN: January 18th, 2015.

22 THE COURT: How many pages is it?

23 MR. GOODMAN: I'm sorry. I'm not off to a great start
24 here. Let me then go to number 40, page 2.

25 THE COURT: You want me to go to tab 40?

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1 MR. GOODMAN: 40, yes. You will see from that tab
2 that in January and February of --

3 THE COURT: You should have done this electronically
4 rather than these cumbersome books.

5 MR. GOODMAN: Sorry, your Honor.

6 THE COURT: Okay. I've got 40.

7 MR. GOODMAN: On the second page of 40 is an email,
8 dated January 25th, 2016, from Jennifer Estabrook, who was at
9 that point in time the general counsel and COO of Fila, and
10 they're in the middle of negotiating in January of 2016 with a
11 sales rep that would cut out Kayo from a number of possible
12 accounts. On January 25th, Ms. Estabrook wrote --

13 THE COURT: Don't you think it would make more sense
14 to start with the agreement itself and what you consider was a
15 breach? There was a notice of termination that was sent via
16 Fila.

17 MR. GOODMAN: Correct.

18 THE COURT: Fila contends that it sent it because they
19 were non-curable breaches. You contend that it was an
20 improvident sending, a breach of contract by Fila. That's the
21 major issue of this case.

22 MR. GOODMAN: Yes, your Honor.

23 THE COURT: So why don't we focus on the major issue
24 of this case.

25 MR. GOODMAN: Yes, your Honor. So that's paragraph

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1 15.2 of the agreement.

2 THE COURT: Okay. So what was the termination? I'd
3 like to see what, in effect, was the termination.

4 MR. GOODMAN: The termination is a February 10th, 2017
5 email in our book at 1B, as in boy.

6 THE COURT: In 1B?

7 MR. GOODMAN: B as in boy, your Honor.

8 THE COURT: I have it. And it reads, by Jennifer
9 Estabrook, chief operating officer of Fila, writing to the
10 president, Troy Morgan, of Kayo. Dear Troy, the purpose of
11 this letter is to notify you that pursuant to section 15.2(i)
12 of the agreement --

13 And let's look at 15.2(i) of the agreement to see what
14 it says. A licensee sells products outside the territory.
15 That's 15.2(i). That, pursuant to that section, Fila is
16 exercising its right to immediately terminate the agreement as
17 a result of Kayo's complete failure to exercise any of its
18 rights or fulfill any of its obligations under the agreement
19 for a period of over 18 months. During this period,
20 representatives of Fila attempted numerous times to contact
21 you, your lawyer, and your finance team and received no
22 response. At this point, these breaches are not capable of
23 being cured. Given these breaches of the agreement and Kayo's
24 complete lack of business etiquette, there is simply no
25 interest or appetite to try to build a relationship with you or

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1 your company.

2 Maybe let me change this procedure and just ask now,
3 Ms. Heilman, these questions.

4 Was 15.2 a mistake?

5 MS. HEILMAN: Actually, there are two 15.2(i)'s.
6 There is, if you look up into the body of the paragraph that
7 starts: "Licensor may terminate," you'll see romanette (i),
8 immediately upon any material breach of any --

9 THE COURT: I need to regulate the sound.

10 (Pause)

11 Licensor may terminate this agreement, and the license
12 is granted hereunder, immediately upon any material breach of
13 any of the provisions hereof by licensee which is not capable
14 of being cured.

15 Now, you're saying that because Kayo did not -- and you
16 don't say why -- exercise any of its rights or fulfill any of
17 its obligations for a period of over 18 months, shouldn't you
18 have given a notice to cure?

19 MS. HEILMAN: There are actually two possible grounds
20 for termination. So that was the provision that was
21 referenced.

22 THE COURT: Well, that's the only provision that
23 counts then.

24 MS. HEILMAN: So in Fila's view, by this point, it was
25 18 months into an agreement term that contemplated certain work

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1 that was going to be done by Kayo.

2 THE COURT: Isn't this a situation of right to cure?

3 MS. HEILMAN: No. I believe -- Fila does not believe
4 that there was --

5 THE COURT: I know, but what did the agreement say?

6 MS. HEILMAN: There is no obligation to provide a
7 notice to cure.

8 THE COURT: Part 2 says, upon any material breach of
9 any of the provisions hereof by licensee which is capable of
10 being cured and is not cured within 45 days.

11 So how about 4, licensee fails to submit to licensor
12 for its prior approval any product advertising material or
13 plan.

14 MR. GOODMAN: That's explicitly --

15 THE COURT: Cease, Mr. Goodman.

16 MR. GOODMAN: I apologize. I thought your Honor was
17 done.

18 THE COURT: Number 6, licensee fails to fulfill any
19 other material obligations it may have, and it specifics which
20 ones.

21 MS. HEILMAN: I agree with that is what the agreement
22 says. I think those are examples of what constitute
23 non-curable material breaches. I don't know that the agreement
24 says that a non-curable breach is defined as the following.

25 There is also a provision on the following page,

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1 section 15.4.

2 THE COURT: Can I read this language. The following
3 constitute a non-curable material breach. Is that not a
4 covenant or is it just a preparatory wish?

5 MS. HEILMAN: It's an example of what constitutes a
6 non-curable material breach. Here, the conduct went beyond --

7 THE COURT: It doesn't say example. It doesn't say
8 for example.

9 MS. HEILMAN: It does not say defined as.

10 THE COURT: Following a non-curable material breach.

11 MS. HEILMAN: I agree there is some ambiguity. I
12 would point out that the failure to submit product advertising
13 materials or plans was not the only issue here. There was
14 several other issues of complete and utter failure to
15 communicate for an 18-month period.

16 THE COURT: Are you not bound by the notice of
17 termination you give?

18 MS. HEILMAN: I believe that the Court could also find
19 an alternative ground for termination under section 15.4, which
20 is automatic termination provision based on the record
21 evidence.

22 THE COURT: Let's read it. There is three sections
23 under there, and 4 is blank. Which subsection are you relying
24 on?

25 MS. HEILMAN: Subsection 3.

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1 THE COURT: Either party becomes unable to pay its
2 debts as they fall due or becomes unable in the other party's
3 reasonable opinion to fulfill all of its material obligations
4 thereunder. Is that what you're working on?

5 MS. HEILMAN: The second clause, in the other party's
6 reasonable opinion could not fulfill all of its material
7 obligations.

8 THE COURT: So you then have the obligation to show
9 that your termination was reasonable, right?

10 MS. HEILMAN: I believe the plaintiff has the
11 obligation to prove that their performance was reasonable.

12 THE COURT: No. No. The way I read it is it's an
13 exception. Either party becomes unable to pay its debts as
14 they fall due, or becomes unable in Fila's reasonable opinion
15 to fulfill all of its material obligations thereunder. Since
16 it's your reasonable opinion that counts, you have the burden.

17 MS. HEILMAN: Correct.

18 THE COURT: So why don't we let Ms. Heilman then speak
19 about how she will prove that her opinion that the notice of
20 termination was reasonable.

21 MS. HEILMAN: So I think it might be helpful to step
22 back and talk about the nature of the arrangement generally and
23 what was sort of bargained for here.

24 So you have, under the agreement --

25 THE COURT: Don't we find this in the agreement

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1 itself?

2 MS. HEILMAN: Yes, we will find this in the agreement
3 itself.

4 THE COURT: Because the agreement says it's the entire
5 agreement, doesn't it?

6 MS. HEILMAN: It does.

7 THE COURT: The cause is 18.4. This agreement sets
8 forth the entire agreement and the standing with respect to the
9 business hereby contemplated by and between the parties. This
10 agreement shall not be altered or amended except by writing
11 duly executed by the parties.

12 So we have to find the obligation that has not been
13 performed within the four corners of this agreement.

14 MS. HEILMAN: So I would refer back to section 2.1,
15 which is grant of licenses. That is where Fila granted Kayo
16 the exclusive nontransferable right and license to use the
17 Skate Trademark in connection with the manufacturer marketing
18 and sale of the products, and the products is defined above in
19 section 1.10, products shall mean products branded with a Skate
20 Trademark.

21 THE COURT: Set forth in Schedule A. Schedule A says,
22 street and skateware apparel limited to short-sleeve T-shirts,
23 long-sleeve T-shirts, jackets, sweatshirts, sweatpants, pants,
24 shorts and footwear in all cases branded Fila Skateboarding.

25 MS. HEILMAN: Correct.

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1 THE COURT: So I guess it's failure to make progress
2 on these products. Is that what we're talking about?

3 MS. HEILMAN: Yes, this was to be a completely new
4 product line for Fila. Fila had never before ventured into the
5 skate market.

6 THE COURT: So working with Kayo is that Kayo had
7 considerable experience in the skate market?

8 MS. HEILMAN: Correct. So Fila is a very experienced
9 licensor, it's a licensed business, it routinely works with
10 licensees to market its products.

11 THE COURT: So what did Kayo fail to do?

12 MS. HEILMAN: Kayo failed to develop, market, or sell
13 any products.

14 THE COURT: Is there a provision here that gives a
15 time period?

16 MS. HEILMAN: There isn't, but the law requires that
17 when you have an exclusive license that contemplates the
18 payment of royalties, you have a duty to act reasonably because
19 you're essentially excluding the licensor from the market and
20 they're expecting profits in return, royalty payments. So
21 there is an abundance of case law, as I'm sure you're well
22 aware, that requires the licensee to engage in reasonable
23 efforts to develop in market and sell the licensed products.

24 THE COURT: At any point in time, did you write a
25 letter to Kayo complaining about its lack of performance?

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1 MS. HEILMAN: They did reach out. There was at least
2 one email about a year into the agreement where the then
3 general counsel, who is now Fila's president, reached out and
4 asked for who is the contact for royalty reporting.

5 THE COURT: Can you point me to that email?

6 MS. HEILMAN: Sure. Tab 42.

7 THE COURT: Your book?

8 MS. HEILMAN: My book.

9 MR. GOODMAN: It is also in ours, your Honor.

10 THE COURT: I haven't ruled yet. You're not supposed
11 to duplicate exhibits.

12 What do you want me to read?

13 MS. HEILMAN: So the email is just what's on this
14 page, your Honor. It's from Jennifer Estabrook, dated May
15 23rd, 2016, which was about one year into the agreement term –
16 the agreement was effective as of June 15th, 2015 – saying can
17 you please let me know who the contact is at Kayo for royalty
18 reporting. Ms. Estabrook testified that in her experience,
19 this is the apparatus of communication between the licensor and
20 the licensee, is the royalty report. By this point, they have
21 heard nothing from Kayo. A year into the agreement, she sent
22 this email and received no response.

23 THE COURT: I can't hold this is any kind of a notice
24 of poor performance, not from this document.

25 Are there any other documents?

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1 MS. HEILMAN: There were also other indicators that
2 there was nothing happening with this contemplated skate line.

3 THE COURT: For example.

4 MS. HEILMAN: There was no social media activity.

5 I want to also direct your Honor to some other
6 provisions of the agreement.

7 The agreement at section 5.2 contemplated that
8 licensees shall deliver to licensor for its approval one
9 concept design or color sketch of each product to be
10 distributed by licensee hereunder. That never happened. It's
11 an admission, Kayo's witnesses admitted that no concept
12 designs, sketches, product samples. This provision also
13 references product samples being provided. None of those
14 things were provided.

15 THE COURT: Did you ever complain?

16 MS. HEILMAN: They did not, your Honor, to -- I mean,
17 in Fila's experience, the way that the licensing agreement
18 works is that it's typically the licensee that has a sense of
19 urgency and is pushing to get products approved and is in
20 constant contact trying to collaborate with Fila, presenting
21 designs for its approval. They're very eager to generate
22 sales.

23 THE COURT: It may be, but that sentence is not a
24 non-curable breach that's curable within 45 days, and if there
25 isn't a cure within 45 days, you have a right to terminate.

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1 The separate sentence reads, upon request, Kayo shall deliver
2 to Fila for its approval one current production sample of such
3 requested product together with the tags, labels, and packaging
4 to be used in connection therewith.

5 Is there proof of any request made by Fila?

6 MS. HEILMAN: No, there was not a request made. But
7 as I mentioned, in Fila's experience, it's the licensee that
8 does the work, which distinguishes a license arrangement from a
9 distribution arrangement.

10 THE COURT: This is the specific covenant under the
11 agreement which is curable, which you did not give notice to
12 cure.

13 MS. HEILMAN: There is also a provision -- the
14 following provision is a requirement that the licensee submit
15 proposed advertising materials to the licensor for approval.
16 That also never happened.

17 THE COURT: Upon request.

18 MS. HEILMAN: And in section 4.1, the licensee --

19 THE COURT: Before you finish with 5.2, it
20 specifically says Fila's request, doesn't it?

21 MS. HEILMAN: 5.3 does not say that.

22 THE COURT: Under upon request, Kayo shall deliver to
23 Fila for its approval, et cetera.

24 MS. HEILMAN: Production sample. I'm sorry. Not the
25 following sentence, the following paragraph, 5.3.

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1 THE COURT: Within a reasonable period of time prior
2 to the dissemination of any advertising material, licensee
3 shall submit such proposed advertised material to licensor for
4 approval.

5 So if you didn't get it, you had to ask.

6 MS. HEILMAN: That is not Fila's --

7 THE COURT: With notice, that's curable.

8 MS. HEILMAN: That's not their experience with dozens
9 other licensees worldwide and decades of experience. They
10 don't follow up and sort of chase licensees. The expectation
11 is that the licensee will do the work to generate the products
12 and generate the sales.

13 THE COURT: Mr. Goodman, what in this document makes
14 this a curable breach?

15 MR. GOODMAN: Everything is a curable breach except
16 for those that are non-curable 1, 2, and 3.

17 THE COURT: Let's read it together. 15.2, is it?

18 MR. GOODMAN: Yes, your Honor.

19 THE COURT: Immediately upon any material breach of
20 any of the provisions hereof by licensee which is not capable
21 of being cured.

22 I can't hold that failures of 5.2 and 5.3 are not
23 curable.

24 MR. GOODMAN: That's correct, your Honor.

25 THE COURT: Ms. Heilman.

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1 MS. HEILMAN: I'm sorry. I didn't quite catch what
2 you said.

3 THE COURT: I can't hold that any obligation of a
4 product of Kayo to be deformed under 5.2 or 5.3 is a
5 non-curable obligation. If there is a failure to perform,
6 there is an obligation to give notice to cure before you
7 terminate.

8 MS. HEILMAN: Which specific provision, are you
9 referring to 5.2(iv)?

10 THE COURT: The ones you were talking about, 5.2, 5.3.

11 MS. HEILMAN: Also, I just wanted to call your
12 attention to one other provision that's made explicit, that's
13 the licensee in section 4.1, licensee shall use commercially
14 reasonable efforts.

15 THE COURT: Licensee shall only be permitted to sell
16 the products in the authorized distribution channels. I think
17 that's section D, right?

18 MS. HEILMAN: Section 4.1.

19 THE COURT: The authorized distribution channels on
20 the list of companies that are set out in schedule B.

21 MS. HEILMAN: That's right.

22 THE COURT: Licensee shall use commercially reasonable
23 efforts to market the products and the collaboration with
24 licensor in store, online, and through its traditional and
25 social media activities.

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1 Again, this is curable. Under the regime of the
2 contact, Kayo is entitled to a 45-day right of cure, and if it
3 doesn't accomplish what it has to accomplish in 45 days, you
4 have an absolute right to terminate, but you didn't give that.

5 MS. HEILMAN: Correct. There were a number of other
6 issues beyond just the failure to present the product designs.
7 There was, as I mentioned, no apparent outward signs that they
8 were doing any business.

9 Another big issue is that Kayo, during the agreement
10 negotiations, represented that it had these flagship retail
11 stores in these prominent locations that would be a very
12 significant source of significant distribution channel for the
13 skate products that would be developed.

14 THE COURT: Excuse me. On a schedule B, you both
15 agreed on the stores, whether flagship or not flagship, there
16 is a long list of stores, covering several pages.

17 MS. HEILMAN: There is an offering memorandum provided
18 to Fila during the negotiations that made these representations
19 about the store. Fila's witness testified that she understood
20 that the store was going to be implicit in the arrangement.
21 The store closed right after the agreement was signed and Kayo
22 never notified Fila of the store closing.

23 THE COURT: May I see it?

24 MS. HEILMAN: The offering memorandum? Tab 12.

25 THE COURT: I have it. It's an email from Simon

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1 Grensted of Kayo to Jennifer Lopez of Fila.

2 Here is the corporate profits document I had
3 mentioned. Directing them to our website may be of use, also,
4 but I will leave that for you to decide. I should have the
5 next term of the agreement to you by tomorrow. Looks like we
6 are really close. I don't think any contention items remain.
7 I look forward to hearing how it goes with the online skating
8 company.

9 MS. HEILMAN: The attachment is the document that I
10 was referencing that made representations about the prominence
11 of the store.

12 THE COURT: Where do I find that?

13 MS. HEILMAN: The very next page that was attached to
14 that email.

15 THE COURT: It's a blurb about the Kayo corp.

16 MS. HEILMAN: Correct. The third paragraph is where
17 it talks about how it recently opened a flagship retail store
18 in a highly visible location ripe with potential. Further
19 secures --

20 THE COURT: What does this have to do with anything?

21 MS. HEILMAN: This was part of the discussions and of
22 the agreement, that it had this flagship store, it had this
23 ability to distribute these products. So it was extremely
24 concerning when Fila learned that the store was closed
25 unbeknownst to Fila, and Kayo didn't communicate that to Fila.

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1 THE COURT: Did you give them a notice of cure that
2 you have to make up for what you sold here in other places?

3 It's plain to me, Ms. Heilman, that you didn't operate
4 pursuant to the agreement, that you gave a hasty termination
5 when there was a right to cure. I mean, you can go through
6 example after example, but they all come down to the same
7 thing, all these are curable. They may not have been able to
8 cure, but they had a 45-day right to try, and that they were so
9 incapable of doing anything, that had to be recited. They had
10 to have a chance to show that they could do it.

11 MS. HEILMAN: That would potentially read the section
12 15.4 automatic termination provision out of the agreement
13 because it realizes that that provision contemplates that there
14 are some circumstances that are so exceptional and so beyond
15 the pail of the licensor's experience where, if there is
16 nothing happening, there is no communication, there is no
17 outward sign of any business. Another indication is that Fila
18 heard that there was some financial difficulty that Kayo was
19 experiencing, lack of financing --

20 THE COURT: Let's let Mr. Goodman answer that.

21 What was Kayo doing during the first year of this
22 agreement?

23 MR. GOODMAN: Kayo was doing designs and drawings,
24 which it forwarded to Fila on January --

25 THE COURT: Show me.

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1 MR. GOODMAN: That's exhibits 35 and 36. Once we get
2 to issues of performance, your Honor --

3 THE COURT: Mr. Goodman, let's go very slowly so I can
4 see as you go along. This is documentary, we have no
5 witnesses, so let me look at the documents.

6 MR. GOODMAN: Does deposition testimony count, your
7 Honor?

8 THE COURT: Yes.

9 MR. GOODMAN: Let me, if I may direct your Honor's
10 attention --

11 THE COURT: Let me look at 35 and 36 first. You said
12 it, let me look at it.

13 MR. GOODMAN: Those are the wrong numbers. I'm sorry,
14 your Honor. I apologize. 30 and 31.

15 THE COURT: Why don't you guys have help with all the
16 things you have to master yourself?

17 MR. GOODMAN: The associate who was working on this
18 case with me, your Honor, is on her honeymoon.

19 THE COURT: Okay. I've got 30. What do you want me
20 to look at?

21 MR. GOODMAN: Those are all the drawings and the
22 mockups.

23 THE COURT: Of what?

24 MR. GOODMAN: Of the proposed skate program between
25 Fila and Kayo.

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1 THE COURT: What did you do with those?

2 MR. GOODMAN: We sent them to Fila on January 10th,
3 2017. There was a series of emails, your Honor.

4 THE COURT: So that's a year and a half into the
5 agreement.

6 MR. GOODMAN: Yeah, but there had never been any
7 notice. But when we get into the performance and we call
8 witnesses -- and why I said we would need witnesses because we
9 do have testimony --

10 THE COURT: Let me get some dates clear first.

11 The inception date was when?

12 MS. HEILMAN: June 15, 2015.

13 THE COURT: And the first notice given by Kayo about
14 its performance is when?

15 MR. GOODMAN: Well, the first written notice was
16 January 10th, 2017. Mr. Morgan is prepared to testify that he
17 was in constant verbal communication with Mr. Epstein of Fila.
18 In fact, there are documents in the record that show that not
19 only were they working on the designs that were transmitted on
20 January 10th, 2017, but they were also recruiting a sponsor for
21 the Fila marks, and we have those documents --

22 THE COURT: What was the date of termination,
23 Ms. Heilman?

24 MS. HEILMAN: I believe it was February 10th, 2017.

25 THE COURT: So one month after you receive Fila's

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1 mockup, you terminate?

2 MS. HEILMAN: I think, by this point, the ship had
3 sailed for Fila, to be candid.

4 Just to respond to Mr. Goodman's comments about
5 constant contact with Mr. Epstein, that's --

6 THE COURT: I'm not interested in that. I'm just
7 focusing on this.

8 So I'm looking at tab 30, Fila's skateboarding product
9 initiatives, February 2016 to January 2017. So eight months
10 after the inception date, you're getting a pretty full book of
11 products.

12 MS. HEILMAN: It would be 18 months, your Honor. And
13 there is no evidence in the record that Fila received this.
14 Fila's witness has a shoe designer, has a vague recollection
15 that he received a package that may have had some sketches in
16 them that showed, in his view, that they had an intent to begin
17 work on the product --

18 THE COURT: You're saying this document was not
19 received?

20 MS. HEILMAN: I don't believe that there is any clear
21 recollection that this was received and it's at odds with the
22 testimony in the record with what Fila believe it received.

23 THE COURT: You believe, Mr. Goodman, it was sent?

24 MR. GOODMAN: Yes, and we have the documentary
25 evidence and the deposition testimony, your Honor.

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1 Let's start with, if I may, the deposition testimony
2 of the person who was coordinating and who introduced --

3 THE COURT: You're going to offer that, you're telling
4 me about that. Is there a document that covers this?

5 MR. GOODMAN: Email, your Honor, document 12.

6 THE COURT: Document 12 in your book?

7 MR. GOODMAN: Yes, your Honor. There is a series of
8 email communications back and forth --

9 THE COURT: Wait a minute. Let's do one at a time,
10 Mr. Goodman, one at a time.

11 This is an email from Mark Eggert. Who is he with?
12 He is vice president of footwear design and advance concepts of
13 Fila?

14 MR. GOODMAN: Correct, your Honor.

15 THE COURT: And he sends it to John Epstein of Kayo.

16 MR. GOODMAN: Your Honor, 12 is a January 10th, 2017
17 email from Troy --

18 THE COURT: I've got the wrong -- sorry. This is from
19 Troy Morgan to Mark Eggert of Fila. Troy Morgan was Kayo. Hi,
20 Mark. It's been a while. I hope you're good. I want to reach
21 out and see if we can get the ball rolling again on modifying
22 the Original Tennis and the Original Fitness to be ready to
23 launch and skate. Not sure how the timing is for you, but we
24 are fully ready with a great game plan. Please let me know if
25 I can forward you some notes to get started, and maybe we can

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1 jump on a call to go over some details in the notes.

2 This is dated January 10, 2017.

3 MR. GOODMAN: Correct, your Honor.

4 THE COURT: This doesn't say they forwarded anything.

5 MR. GOODMAN: Then you look at the next email, your
6 Honor, which is Mr. Morgan -- I'm sorry. It is Eggert back to
7 Morgan.

8 THE COURT: Where do I find that?

9 MR. GOODMAN: That's 13.

10 THE COURT: Eggert to Epstein.

11 MR. GOODMAN: It says I'll be happy to look at the
12 product.

13 THE COURT: Where?

14 MR. GOODMAN: The first one. This is Eggert to
15 Epstein, who is the president, wrote back, said, I'd be happy
16 to look into product again and I asked him if he knew where we
17 stand as far as any contract. I said I'd be able to chat after
18 we're back from China.

19 THE COURT: And Mark Eggert, again, is Fila or Kayo?

20 MS. HEILMAN: He's a shoe designer for Fila.

21 MR. GOODMAN: He's the head designer.

22 THE COURT: He's with Fila and he writes to Epstein,
23 who is?

24 MR. GOODMAN: The president.

25 THE COURT: Of?

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MR. GOODMAN: Fila.

THE COURT: So this is one Fila person to another?

MR. GOODMAN: Correct.

THE COURT: What do you want me to take from this?

MR. GOODMAN: That, in fact, Mr. Eggert expressed to today Kayo that they were ready to proceed and told Mr. Epstein just that fact.

THE COURT: Mr. Goodman, I don't want you to shift from product to product. The question I put to you is what proof do you have that that fixed chief of materials, showing product design and the like, is sent on January 10, 2017?

MR. GOODMAN: Tab 16.

THE COURT: Don't tell me the tab, that you don't know for sure. Is it tab 16 that I'm going to find this?

MR. GOODMAN: Tab 16.

THE COURT: And this is from Eggert to Morgan? Thanks for following up, we got the package in, looks pretty good. We'll get into it a bit and we'll get back to you as soon as we get something.

MR. GOODMAN: That's it. That's it.

THE COURT: This is a response to an email of February 7 from Troy Morgan. Hi, Mark. Following up again to see if you received a package with notes on the OF and OT.

What is OF and OT?

MS. HEILMAN: Original Fitness and Original Tennis.

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1 Those are the Fila Heritage shoes.

2 THE COURT: Does this pertain to that document that
3 was at 40?

4 MR. GOODMAN: Yes, your Honor.

5 THE COURT: How do I know it pertains to that
6 document?

7 MR. GOODMAN: Mr. Eggert's testimony, your Honor.

8 THE COURT: Where shall I find it?

9 MR. GOODMAN: So his deposition transcript is at tab
10 28, starting on page 96 and going through page 111.

11 THE COURT: Where is the testimony about sending that
12 sheath of materials?

13 MR. GOODMAN: It's page 110, line 17, through page
14 111, line 5, line 10, line 22.

15 THE COURT: Just a minute. Don't do that. Read the
16 testimony into the record that you think is relevant, giving
17 page and line references.

18 MR. GOODMAN: This is page 110, line 3.

19 "Q. So at that time, Kayo was communicating to you and sending
20 you mockups and going forward with the process; correct?"

21 MR. GOODMAN: There was an objection. Answer over
22 objection.

23 "A. There was a package there. To my recollection, I don't
24 believe I received mockups, but I would presume that it was
25 more of competitive samples and evidently a document of some

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1 sort.

2 "Q. Did -- what was in the package conveyed to you when you
3 received it, the impression that Kayo was working on the file
4 at Kayo project?

5 "A. I would put it as intent to work on the Kayo Fila project.

6 "Q. Did you have the same intent as of February 8th, 2017?

7 "A. Yes.

8 "Q. When you said the package looks pretty good, was that
9 truthful at the time you said it?

10 "A. Yes, I have no reason to believe otherwise.

11 "Q. Now, the next phrase reads, let me get into it a bit and I
12 will get back to you as soon as I get something together. Do
13 you see that?

14 "A. Yes.

15 "Q. What were you going to look into?

16 "A. From what I gather in looking at the previous exhibit,
17 there were samples of some sort and a document in there,
18 perhaps requesting or suggesting some design ideas to which I
19 would presumably put that information together and submit
20 something back out to Troy.

21 "Q. And that would be in the normal course?

22 "A. Yes."

23 THE COURT: How does that show that there was
24 performance going on by Kayo, which, if you didn't like, you
25 would have to give a notice of some kind of breach and

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1 opportunity to cure?

2 MS. HEILMAN: I think, by this point, it was too late.
3 I think Mr. Eggert is a shoe designer. He's not Fila's
4 management. At this point, Fila's management already had
5 serious concerns about Kayo's performance and believed that the
6 agreement had been abandoned or had been terminated.

7 THE COURT: Mr. Eggert had been set up to perform with
8 and to work with Kayo. The notice of termination doesn't come
9 until a month later. This is January.

10 MS. HEILMAN: If I could direct your attention back to
11 tab 33 in our binder.

12 THE COURT: I have it. What do you want me to take
13 from this?

14 MS. HEILMAN: This is a January 2016 email where there
15 is some discussion about this other sales agent that Fila
16 ultimately engaged to pursue sales with these retailers, who
17 were skatecentric, that Fila was interested in distributing its
18 skate and non-skate products to.

19 In the context of this email chain, Kayo came up --

20 THE COURT: Excuse me. Tell me what I should read.

21 MS. HEILMAN: You can read the very first page, Bates
22 label 460. You have Mark Eggert saying, in January of 2016 --
23 now this is only about six months into the agreement -- have
24 heard nothing from Troy. Meaning Troy Morgan, Kayo's
25 president. Then you have Mr. Epstein, the then president of

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1 Fila saying, amazing. Jennifer, let's discuss. Whatever
2 happened to Willy Wonka.

3 So this, again, goes back to the representations that
4 Mr. Morgan made at the outset. There are a number of documents
5 and early communications between Mr. Epstein and Mr. Morgan
6 where Mr. Morgan conveyed he was the Willy Wonka of the
7 skateboarding industry. There was a sense of fervor and
8 urgency to get this deal done so that he could get to work on
9 these skate products. So Fila had heard nothing, and this is
10 only six months into the agreement, and they're expressing some
11 surprise.

12 Now fast forward to tab No. 43 --

13 THE COURT: I'm not finished with tab 33. Who's Todd
14 and his group?

15 MR. GOODMAN: That's an important issue --

16 MS. HEILMAN: Todd Milspa is with the sales agency
17 that Fila ultimately engaged to pursue sales to these
18 skatecentric retailers when Kayo did not perform.

19 THE COURT: In place of Kayo?

20 MS. HEILMAN: Correct. Well, initially, it was
21 supposed to not be in place of Kayo. They engaged Money Ruins
22 Everything -- it's the name of the company -- they were going to
23 pursue other retailers, but then when Kayo did not perform,
24 Money Ruins Everything ultimately stepped in and engaged these
25 skatecentric retailers.

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1 MR. GOODMAN: Your Honor, may I broaden this
2 perspective a little bit and talk about Money Ruins Everything
3 and talk about what really happened?

4 THE COURT: No.

5 MR. GOODMAN: Okay.

6 THE COURT: How do I deal with what Mr. Goodman has
7 presented to me? Is Mark Eggert not an executive of Fila?

8 MS. HEILMAN: I believe he had the title of vice
9 president, but he is in footwear designs. He's not Fila's
10 management, and that's in the record, as well.

11 THE COURT: Do you have any explanation why he's
12 receiving documents and information from Troy Morgan?

13 MS. HEILMAN: He would be the person who would have
14 provided comments on a design. If Mr. Morgan needed some
15 specifications or shoe specifications or design specifications,
16 he would be the person that would provide, because the intent
17 of the agreement was that Kayo was actually going to work from
18 an existing Fila shoe mold. They weren't going to start from
19 scratch, if you will. They were going to take the Original
20 Fitness and the Original Tennis shoe and sort of modify the
21 sole of the shoe to make it fit for skateboarding. So Mark
22 Eggert would have been the point of contact for those types of
23 technical questions.

24 THE COURT: Mr. Goodman, where is the document we
25 looked at before, the sheath of products and advertising?

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1 MR. GOODMAN: That's 30 and 31.

2 THE COURT: This is all footwear?

3 MR. GOODMAN: Yes, your Honor. There is some
4 clothing, but it's --

5 THE COURT: There is clothing, also?

6 MR. GOODMAN: More than two pages, but it's
7 predominantly footwear.

8 THE COURT: So why wasn't this performance under the
9 agreement?

10 MS. HEILMAN: I don't know that it's entirely clear
11 from the record or the witness testimony that this is exactly
12 the document that Mr. Eggert received. And by the point in time
13 that Mr. Eggert received anything from Kayo, by that point, if
14 Fila's management viewed the contract as having been abandoned
15 or terminated, given the fact that they felt conduct of the
16 licensee was so at odds with the representations and
17 discussions during the negotiation period, which are also
18 reflected in the record.

19 MR. GOODMAN: Your Honor, this is attorney
20 representation and the underlying evidence is to the contrary.

21 MS. HEILMAN: It's not --

22 MR. GOODMAN: February 8th of 2017, Fila received a
23 written confirmation by email from Zumiez that it agreed to
24 enter an agreement with Fila through this MRE. It is no
25 coincidence that that happened on February 8th and the

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1 termination letter got sent on February 10th.

2 THE COURT: What was the name of that other company?

3 MR. GOODMAN: Zumiez, Z-u-m-i-e-z. If your Honor goes
4 back to 2.1, you'll see that Zumiez is one of the three
5 retailers as to which Kayo was entitled to receive commission.

6 THE COURT: Presumably, because it introduced?

7 MR. GOODMAN: What's that, your Honor?

8 THE COURT: Presumably because it introduced Fila to
9 Zumiez?

10 MR. GOODMAN: Your Honor, it doesn't say that, but on
11 the other hand, there is an email from Mr. Morgan to
12 Mr. Epstein showing him Mr. Morgan's relationship with Zumiez.
13 That is in the latter part of the book, 39, the second page
14 of --

15 THE COURT: 39 only has one?

16 MR. GOODMAN: Yes. The second email is from Zumiez to
17 Mr. Morgan about the nature of their relationship. That's
18 July 21st, 2015. On July 22nd, 2015 --

19 THE COURT: Wait a minute. Tell me where I should go.

20 MR. GOODMAN: Okay. This is 39, your Honor.

21 THE COURT: Number 39?

22 MR. GOODMAN: Yes.

23 THE COURT: It's an email. It's two pages. It's
24 email traffic between Troy Morgan and Jennifer Lopez.

25 MR. GOODMAN: No, your Honor. I know which book, if

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1 you look in plaintiff's book, 39, there are two emails.

2 THE COURT: Which is your book?

3 MR. GOODMAN: The one with the orange cover.

4 THE COURT: Got it, 39. It's email traffic between
5 Jennifer Lopez and Troy Morgan.

6 MR. GOODMAN: No, your Honor. The bottom one is from
7 Josh Birch to Troy Morgan on July 21 --

8 THE COURT: Is that what you want me to look at?

9 MR. GOODMAN: Yes.

10 THE COURT: So let me do it. What do you want me to
11 take from this document?

12 MR. GOODMAN: And then look at the one above that by
13 which Mr. Morgan sent this email to Mr. Epstein.

14 What I would like you to take from these documents,
15 your Honor --

16 THE COURT: This is October 18, 2017?

17 MR. GOODMAN: No, your Honor. It's July 21st and
18 July 22nd, 2015.

19 THE COURT: I see. So from this, you want me to take
20 that the Zumiez was introduced to Fila by you, by Kayo?

21 MR. GOODMAN: No, your Honor. It doesn't say that.
22 What it does say, though, is the relationship between Zumiez
23 and Kayo, the contract does not require --

24 THE COURT: That's why I would infer that there was an
25 obligation to pay royalties by Fila to Kayo, even though Fila

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1 sold directly to Zumiez.

2 MR. GOODMAN: That's correct, your Honor, without
3 regard to whether there was an introduction --

4 THE COURT: This is not part of our case.

5 I have to say, Ms. Heilman, from everything I've seen,
6 you did not comply with the contract to give notice to cure.

7 MS. HEILMAN: I think, at a minimum, your Honor, it
8 would behoove you to hear testimony from the Fila witnesses
9 about the unique circumstances of this arrangement and why they
10 believed they could invoke section 15.4 and 15.2(i),
11 non-curable material breach.

12 THE COURT: Were these depositions taken?

13 MS. HEILMAN: There were depositions taken and there
14 was testimony taken.

15 THE COURT: Why don't you point me to the depositions.

16 MS. HEILMAN: Turn to tab 2.

17 MR. GOODMAN: Whose depositions?

18 MS. HEILMAN: This is Jennifer Estabrook, who was
19 Fila's then general counsel, who is now Fila's president.

20 MR. GOODMAN: It's also tab 27 in our book, your
21 Honor.

22 THE COURT: Please don't do that.

23 MR. GOODMAN: I'm sorry. I was just trying to be
24 helpful.

25 THE COURT: You're not helpful. Don't interrupt each

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1 other.

2 I'm on tab 2, deposition of Jennifer Estabrook.

3 MS. HEILMAN: So there are several references I'll
4 point your Honor to. The first one is on page 1 of 3.

5 THE COURT: Yes. What do you want me to read?

6 MS. HEILMAN: Beginning at line 16. This is
7 Ms. Estabrook responding to, why don't you follow up after you
8 didn't hear back after you sent the email regarding the royalty
9 reporting.

10 THE COURT: Read the question and answer, please.
11 Where is the question --

12 MS. HEILMAN: I'm trying to locate the question
13 myself. I believe it's at the top of page 104.

14 THE COURT: Top of 104?

15 MS. HEILMAN: At line 2.

16 THE COURT: Line 2.

17 "Q. So is it your testimony that the May 23, 2016 email --

18 THE COURT: And what was that?

19 MS. HEILMAN: That's the email she sent inquiring
20 about the contact for royalty reporting almost a year into the
21 agreement when they had heard nothing.

22 THE COURT: Sorry?

23 MS. HEILMAN: The email that Ms. Estabrook sent Kayo
24 in May of 2016, approximately a year into the agreement's term,
25 inquiring about the contact for royalty reporting that went

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1 unanswered.

2 THE COURT: Yes.

3 "Q. So is it your testimony that that email was sent in the
4 ordinary course of business like you would with any of your
5 other licensees?

6 "A. Yes. You are mischaracterizing it. I'm asking for a
7 royalty report because there was no communication from Kayo
8 corporation."

9 THE COURT: What do you want me to take from this?

10 MS. HEILMAN: If you continue down to the bottom of
11 page 103, beginning at line 16.

12 "A. I'm just going to give the same answer. We are a licensed
13 business..."

14 THE COURT: That? So the question is, she's not
15 getting royalties. So Fila is complaining it's not getting
16 royalties and Kayo is telling us that it's working on
17 development, and if you felt that the development was too slow
18 or that you were entitled immediately to royalties of a certain
19 level, you had to do that. The agreement doesn't establish a
20 time by which Kayo has to offer sales.

21 MS. HEILMAN: It doesn't, but the law implies an
22 obligation to act reasonably, and if you hear nothing from your
23 licensee almost a year into the agreement, that's cause for
24 significant concern.

25 THE COURT: I would agree if you expect royalties

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1 immediately, that will be a concern, but it's also a
2 requirement to give a notice to cure.

3 What in this agreement, Mr. Goodman, tells me that it
4 was an obligation of Kayo immediately to sell and not to
5 develop?

6 MR. GOODMAN: Nothing, your Honor. It's quite to the
7 contrary.

8 THE COURT: Tell me how you read this agreement.

9 MR. GOODMAN: The very fact that there are no
10 timelines, for one. There is testimony, there is a letter.

11 THE COURT: Let's look at the agreement.

12 MR. GOODMAN: Okay. There is absolutely no timeline
13 here, your Honor. Then, if you go to 15, the termination
14 provision, 15.2(vi) says --

15 THE COURT: Excuse me. Doesn't 5.1, 5.2, 5.3, and 5.4
16 deal with advertising material which has to precede any
17 effective selling, and the fact that it has to be accepted and
18 approved by Fila suggest that there is a period of development
19 that's involved? We also know that, up to the time in the
20 agreement, Fila was not selling skateboards and it had no
21 products that was involved in skateboard sales and was looking
22 to Kayo for help to develop products. That's how I understand
23 this agreement.

24 MR. GOODMAN: Correct, your Honor.

25 THE COURT: It would be nice to point me to some

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1 testimony that says something like that.

2 MR. GOODMAN: There is Ms. Estabrook's testimony on
3 page 51, starting at line 7.

4 THE COURT: Okay. I'm there.

5 "Q. To the best of your present recollection, what was
6 discussed about the term of the agreement prior to July 2nd,
7 2015 with the representatives of Kayo in which you participate?

8 "A. I distinctly remember Mr. Morgan being concerned about the
9 longevity of this agreement.

10 "Q. To the best of your recollection, what did Mr. Morgan say
11 during these conversations regarding the longevity of this
12 agreement?

13 "A. I remembered him wanting to make sure that our ability to
14 terminate this license at the end of the initial term was very
15 limited. I mean -- let me restate that. He was very concerned
16 that there be an opportunity for him to have control over the
17 renewal of this license. He did not want to invest time, and
18 effort, and money, and then have us and build up Fila
19 Skateboarding as a brand and have us take it back and take it
20 over."

21 MR. GOODMAN: There is also a precontract
22 communication between Mr. Morgan and Ms. Blacker and
23 Mr. Epstein, Ms. Estabrook and Mr. Eggert at Fila. That's
24 document 37 in our book.

25 THE COURT: Okay.

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1 MR. GOODMAN: And the penultimate paragraph.

2 THE COURT: I anticipate the first two years being a
3 lot of marketing work supported by small sales volume and this
4 is why we need this to be a long-term partnership, that one.

5 MR. GOODMAN: Yes, your Honor.

6 THE COURT: That's a pretty powerful comment,
7 Ms. Heilman.

8 MS. HEILMAN: Yes, I think it was contemplated that
9 there would be a development period. I think this testimony
10 that he just referenced goes back to the idea that Kayo was
11 going to pour all of its energy and effort into building this
12 brand and it pushed for exclusivity, it pushed for a longer
13 term, and that was why it was so shocking to Fila that the
14 performance and the conduct was so at odds with the fervor and
15 the intensity of the negotiation period.

16 THE COURT: I recognize all that, but that just
17 evidences more the requirement of a notice to terminate, notice
18 to cure.

19 The only thing I find in this agreement that sets a
20 standard of how much selling there should be is in 15.1 where
21 if Kayo does not achieve net sales exceeding \$850,000, there is
22 no obligation to extend the initial term of five years, and
23 there is no statement in here that those sales have to be
24 occurring in any particular part of the five-year period.

25 MS. HEILMAN: That's right, your Honor. I think --

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1 THE COURT: The end of the initial term in net sales
2 have to exceed that.

3 MS. HEILMAN: That's right, but if you're still in the
4 exploratory design phase, this is 18 months in, and this is
5 also testimony of Ms. Estabrook that, by that point, you still
6 have to go through the process of submitting design to Fila for
7 approval, a sample, then have you to go through a four- to
8 six-month period of manufacturing, then a sale period. So by
9 that point - and this is her testimony - there was no curable
10 breach because, by this point, they didn't have the ability to
11 develop sales within the time period that was contemplated.

12 THE COURT: Ms. Heilman, from everything that's shown
13 to me so far, this is not a non-curable breach. This is not
14 within the meaning of 15.2 or the meaning of 15.4(iii). I have
15 to hold that your termination notice was breached.

16 MS. HEILMAN: I believe, your Honor, if you look at
17 some of the additional testimony, that this was not just a
18 situation with --

19 THE COURT: Where do I look?

20 MS. HEILMAN: On page 121 of Ms. Estabrook's
21 testimony.

22 THE COURT: Ms. Estabrook was a general counsel,
23 wasn't she?

24 MS. HEILMAN: She was.

25 THE COURT: She was not a principle involved in the

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1 development of the products. Her testimony is really hearsay.

2 What page do you want me to look at?

3 MS. HEILMAN: Page 121. She served in dual roles.

4 She was a business person and general counsel. She was --

5 THE COURT: But there's no evidence --

6 MS. HEILMAN: -- licensing since 2007.

7 THE COURT: There was no evidence that she was charged
8 in the actual production.

9 Page 121, I have it.

10 MS. HEILMAN: So she's talking about at line 13. I'm
11 sorry. If you scroll up to line 4, in the fall of 2016, we
12 were discussing the absence of Kayo. And then if you scroll
13 down to line 13, the gist of the conversations were that Troy
14 basically had disappeared shortly after we signed the contract
15 and that there had been various reach-outs that were
16 unresponded to. And then we heard -- we were curious as to why
17 somebody who was so dead set on getting this license and
18 protecting it and worrying about the term and not protecting
19 what he was going to build would go completely dark for such a
20 long period of time. So we were discussing and then we heard
21 that the reason was because he didn't have financing --

22 THE COURT: -- the testimony. The gist of the
23 conversations, these were internal conversations at Fila. The
24 gist of the conversations were that Troy -- I guess that means
25 Troy Morgan of Kayo -- basically had disappeared shortly after

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1 we signed the contract and that there had been various
2 reach-outs that were unresponded to. And then we heard -- then
3 we were curious as to why somebody who was so dead set on
4 getting the license and protecting it and worrying about the
5 term and not protecting what he was going to build would go
6 completely dark for such a long period of time. So we were
7 discussing and then we heard that the reason was because he
8 didn't have financing. So we were discussing what to do at
9 that point in time.

10 You know, again, this is something that you put to the
11 other party. Let me see your production schedule, let me see
12 that you have adequately financed this, but you didn't.

13 In any event, Ms. Estabrook is a general counsel who
14 justified the termination and she's not a principal who has
15 knowledge, really.

16 I have to repeat, I have to find that the termination
17 was a breach.

18 Let's go on the next question. How do you prove your
19 loss commissions?

20 MR. GOODMAN: Thank you, your Honor. There are two
21 other elements of damage beyond the loss commission, one is for
22 the renewal period and the other is factual out-of-pocket
23 expenses.

24 THE COURT: Well, you have to prove that you would
25 reach \$850,000 in net sales.

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1 MR. GOODMAN: Correct, your Honor.

2 THE COURT: So let's look at the additional period
3 first. How do you prove lost commissions in the initial
4 period?

5 MR. GOODMAN: We have an expert report, your Honor.
6 The expert report is document 32, and the expert computes the
7 actual loss commissions at page 25 of 35 of his report. Now,
8 that's virtually illegible to my eyes. So we have reproduced,
9 your Honor, for ease of reference in a blowup that is
10 significantly more legible, if I may hand it up.

11 THE COURT: Tell me, in words first, where are we.

12 MR. GOODMAN: Document 32.

13 THE COURT: I have that.

14 MR. GOODMAN: Page 25 of 35.

15 THE COURT: So these are a set of projections, I'm
16 sure.

17 MR. GOODMAN: No, these are actuals, your Honor.

18 THE COURT: These were actual sales?

19 MR. GOODMAN: Correct, your Honor.

20 THE COURT: What do they show? I can't read this.

21 MR. GOODMAN: It shows actual commissions at 7 percent
22 due on actual sales for the initial term of \$761,411.24.

23 THE COURT: \$761,411 and?

24 MR. GOODMAN: 24 cents.

25 THE COURT: Any comment about that figure,

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1 Ms. Heilman?

2 MS. HEILMAN: So the commissions are obviously a
3 percentage of Fila's net sales, so there is really not much to
4 dispute here, but for whatever reason, our calculations are
5 different. We have 732 or thereabouts. I believe there was a
6 brief period before the expiration of the initial term where we
7 didn't have actual sales, so it could be a difference of
8 projections. We probably just have to reconcile the
9 differences.

10 THE COURT: Mr. Goodman is saying these are not
11 projections, they were actual sales.

12 MS. HEILMAN: I can't explain the discrepancy, but we
13 worked from Fila's own members with Fila's personnel who are in
14 the business of computing commissions, and that's their job,
15 and they calculated a different number.

16 THE COURT: Can you explain your calculation.

17 MS. HEILMAN: 7 percent of net sales to a non-Fila --
18 actually, it's possible. I believe some initial spreadsheets
19 that were produced included some products that were, I think,
20 not supposed to be included. It was only supposed to be
21 non-Fila products and there was some sales maybe to Canada that
22 were included. So I do believe that there are some
23 discrepancies that could be ironed out. Our sales, we verified
24 and reverified --

25 THE COURT: So there is some number between \$732,000

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1 and \$761,000 that would reflect the loss commissions not paid
2 to Kayo?

3 MS. HEILMAN: For the entire term. But I don't know
4 that you would automatically find that he was entitled to
5 commissions for the entire term, I think perhaps up to the
6 termination date. I mean, the termination was the termination
7 and --

8 THE COURT: There was a duty to mitigate.

9 MS. HEILMAN: I believe that there was a duty to
10 mitigate and this is a windfall situation, right? He didn't do
11 the work to introduce --

12 THE COURT: Have either of you briefed that issue?

13 MS. HEILMAN: Excuse me? I'm sorry.

14 THE COURT: Have either of you briefed that issue,
15 whether --

16 MS. HEILMAN: No.

17 THE COURT: -- there was? Was this contract supposed
18 to be an exclusive on the part of Kayo, meaning that it could
19 not manufacture for others?

20 MS. HEILMAN: Kayo was given the exclusive right to
21 manufacture skate products only.

22 THE COURT: But was it allowed to expand its business
23 and deal with others?

24 MS. HEILMAN: Beyond the authorized distribution
25 channels in the agreement?

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1 THE COURT: Different product, for example.

2 (Indiscernible crosstalk)

3 MR. GOODMAN: Your Honor eliminated all those damages
4 by --

5 THE COURT: Would you please answer my question. What
6 was Kayo's business?

7 MR. GOODMAN: Kayo's business was skateboards, the
8 sale, distribution of skateboards and attendant products. The
9 sales to Zumiez and Tilly's, the three outlets that we're
10 talking about, that was on any product that was sold by Fila to
11 those three outlets.

12 THE COURT: You calculated that?

13 MR. GOODMAN: Yes. So the total sales based on
14 discovery, based on Fila's sales to Zumiez, Tilly, and PacSun
15 totaled \$10 million during the first term, not counting any
16 renewals, during the first term totaled \$10,877,303.49.

17 THE COURT: You're entitled to 7 percent of that?

18 MR. GOODMAN: Yes, your Honor.

19 THE COURT: And you calculated that?

20 MR. GOODMAN: Yes, your Honor, and it's \$761,411.24.

21 THE COURT: So that's the number you gave me before?

22 MR. GOODMAN: Yes, your Honor.

23 THE COURT: So that \$761,411 is the sum of the
24 commissions that you were supposed to get?

25 MR. GOODMAN: During the first term, during the

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1 initial term.

2 THE COURT: Weren't you required to pay commissions to
3 Fila?

4 MR. GOODMAN: No, your Honor. That was on something
5 different. Your Honor already has eliminated that aspect of
6 the case in your *in limine* rulings. We were supposed to pay
7 Fila a royalty on Fila-branded skateboard products, but those
8 never went to market because of what we were talking about
9 during the course of this afternoon, the submission and
10 approval and so forth.

11 So there are two separate buckets here in 2.1, your
12 Honor. The one bucket, what we're talking about, is the sales
13 that Kayo would have had of the Fila-branded merchandise.

14 THE COURT: How much was that?

15 MR. GOODMAN: Your Honor eliminated that. Your Honor
16 knocked that out as being too speculative.

17 THE COURT: I knocked out your claim for damages?

18 MR. GOODMAN: No, you knocked out my claim for lost
19 profits, your Honor.

20 THE COURT: We're talking about commissions.

21 MR. GOODMAN: But the commissions are not on that
22 breach. The commissions are on the Zumiez, Tilly's, and PacSun
23 sales of any Fila product by Fila, and that's the \$761,000
24 number that we've been talking about.

25 THE COURT: Excuse me one moment.

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(Pause)

So the damages are between \$732,000 and \$761,000 for the loss commissions and I will give you an opportunity to work out the precise number

MS. HEILMAN: Your Honor, I just clarify that, would your Honor consider that the damages should be the commissions that were earned up until the termination? I mean, this is in the provision --

THE COURT: This is the initial term.

MS. HEILMAN: No, I'm talking about up until 2017 of February when the agreement terminated.

MR. GOODMAN: Your Honor has already ruled that the termination was a breach.

THE COURT: Just a minute. If you mean up to the termination date, no. If your termination is a breach, they're entitled to commissions through that initial period, all sales you made to the three companies, and you said you calculate about \$732,000. Mr. Goodman has a calculation that he's given to you of \$761,000. If you take issue with anything in there, I'll give you some time to work it out, otherwise you'll be liable for \$761,411.24 plus interest.

Is there an interest figure in the agreement?

MR. GOODMAN: No, your Honor, not for this. But there was a motion made to strike a claim for interest, which your Honor denied. New York legal rate is 9 percent. Our expert

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1 did a 20-percent calculation.

2 THE COURT: I'm bound to give 9 percent?

3 MR. GOODMAN: Yes.

4 THE COURT: What binds me to give 9 percent?

5 MR. GOODMAN: It is a diversity case, your Honor,
6 9 percent is the New York legal rate under the CPLR.

7 THE COURT: Does diversity carry forward with
8 interest?

9 MR. GOODMAN: The interest runs from the date that the
10 commission should have been paid, which is within 30 days.

11 THE COURT: I'd like to see some law that binds me to
12 9 percent.

13 MR. GOODMAN: Sure.

14 THE COURT: How much is the figure at 9 percent?

15 MR. GOODMAN: \$177,286. So our total with interest on
16 loss commission incomes for the initial term comes out to
17 \$938,697.

18 THE COURT: Okay.

19 MR. GOODMAN: Then there was \$21,961 of out-of-pocket
20 expenses.

21 THE COURT: Where are you allowed to recover?

22 MR. GOODMAN: So there was on standard breach of
23 contract damages to be made whole in reliance on the licensee
24 agreement.

25 THE COURT: What in the licensee agreement covers this

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1 point?

2 MR. GOODMAN: No, the licensee agreement does not,
3 your Honor.

4 THE COURT: So why are you entitled to it?

5 MR. GOODMAN: Because under New York law, breach of
6 contract damages is to put the plaintiff in the position, as
7 you know, as it would have been had the contract been
8 performed. That flowed directly from the breach.

9 THE COURT: So what in the contract gives you
10 entitlement to those kinds of expenses?

11 MR. GOODMAN: No, your Honor, but it doesn't bar it
12 either.

13 THE COURT: So why are you telling it to me if there
14 is no authorization in the contract for it?

15 MR. GOODMAN: Because it's the direct and natural
16 consequence of the breach, your Honor. Without the breach,
17 that \$21,000 would not have had to have been paid.

18 THE COURT: What makes up this \$21,000?

19 MR. GOODMAN: It was a payment made to a skateboarder
20 with whom Kayo had entered into an agreement to sponsor the
21 Fila-Kayo skateboard product. That agreement is in --

22 THE COURT: Wasn't that something that was required to
23 be done by Kayo under the contract?

24 MR. GOODMAN: It was not required, your Honor. It was
25 part of the overall strategy --

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1 THE COURT: -- marketing --

2 MR. GOODMAN: Yes.

3 THE COURT: And you were compensated by commissions.

4 I hold that you're not entitled to that amount.

5 MR. GOODMAN: Then what's left is the renewal period.

6 THE COURT: Now how do you prove you have exceeded
7 \$850,000 in net sales?

8 MR. GOODMAN: In January of 2016, contemporaneously,
9 Kayo also entered into a similar collaboration with Adidas.
10 That collaboration is not in the record. It was in the
11 documents we provided at document No. 26 and based on the sales
12 information that's part of No. 26, the sales information, it
13 was a three-month period, the sales information appended to the
14 agreement in No. 26. The expert reviewed and calculated at
15 \$354,000 for one quarter. So now we're looking at, if you take
16 one quarter in U.S. sales of \$354,000 in the Adidas deal, one
17 year, that would have been \$1.4 million and change, and five
18 years of that would have been \$7 million-plus.

19 THE COURT: Now the agreement, tell me if I'm right,
20 talks about \$850,000 of net sales in the final year of the
21 initial term; am I right?

22 MR. GOODMAN: I'm double checking, your Honor. I
23 don't want to guess.

24 THE COURT: It says, provided that in the event that
25 at the end of the initial term the net sales of the products

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1 exceeds \$850,000.

2 MR. GOODMAN: Yes. So it's for the entire initial
3 term, your Honor, not just the last year.

4 THE COURT: Ms. Heilman.

5 MS. HEILMAN: The Adidas-DGK comparison is not a valid
6 comparator.

7 THE COURT: Let's interpret this agreement first.

8 MS. HEILMAN: I don't read it as requiring \$850,000 in
9 the last year, I just read it as requiring \$850,000 in sales in
10 the initial term. And there is no factual predicate that they
11 would have achieved that because there were no skate products
12 ever developed, and you can't rely on sales of Adidas. Adidas
13 is not on the same footing of Fila, it's a massive company.
14 There is also sales under the DGK brand, which is a very well
15 established skate brand that's been around for decades. That's
16 Kayo's brand, is the DGK brand. So you can't compare sales by
17 Kayo of new Fila skate products that consumers have never heard
18 of with sales of DGK products by Adidas.

19 THE COURT: DGK is Kayo?

20 MS. HEILMAN: That's their brand. So they were
21 co-branded with the Adidas logo. So they were Adidas-DGK
22 co-branded products sold and manufactured by Adidas.

23 THE COURT: So your argument is there is no separate
24 selling shown by DGK?

25 MS. HEILMAN: So there were no sales under this

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1 agreement. So what they did is they used the Adidas DGK
2 collaboration, a separate agreement as a yardstick to
3 extrapolate and project hypothetical sales under this
4 agreement. I'm saying you can't do that --

5 THE COURT: Had they been performed or been allowed to
6 perform your agreement, would they also have been able to
7 perform for Adidas?

8 MS. HEILMAN: It's completely speculative. I mean,
9 it's apples and oranges.

10 THE COURT: Is there anything that barred them from
11 their agreement with Adidas if they were to continue to perform
12 under the license agreement?

13 MS. HEILMAN: No. I think, potentially, they may have
14 been barred under their Adidas agreement, but think it's --

15 THE COURT: I don't think mitigation is applicable. I
16 think they're entitled to the full loss commissions and I'm
17 still on this question, we're still on this issue of whether or
18 not there was or could be a successive term based on the level
19 of net sales. I don't think, Mr. Goodman, that your production
20 for Adidas is comparable. I don't think it's of evidentiary
21 value.

22 MR. GOODMAN: Your Honor, given that the defendant's
23 breach foreclosed any performance under the initial term of the
24 agreement, we can't look to anything involving Fila in the
25 skateboard market.

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1 Secondly, as your Honor knows, apparently the analogue
2 doesn't have to be specific, it just has to be to a reasonable
3 degree of certainty if we were dealing here with a close
4 question. If we're talking if the Adidas net sales would have
5 been, let's say, a million over a five-year period, then he had
6 you to do a close calculation, it becomes a tougher comparison.
7 If we're looking for a reasonable predicate, a reasonable basis
8 and remembering that the inferences are construed against the
9 party breaching the agreement, since the Adidas number would
10 have come to, over five years, over \$7 million, and we're
11 talking roughly 10 percent, is it a reasonable basis under
12 these facts and circumstances, given that the breach by Fila
13 made a more specific comparison possible, is it a reasonable
14 basis to say that they would have done with Fila approximately
15 10 percent of what they did with Adidas? I think that's a
16 fairly safe assumption.

17 THE COURT: I recognize the presumptions and the
18 assumptions, but damages also have to be proved. I have no
19 ratios to work on between Fila's sales and Adidas's sales. I
20 can't tell whether they're comparable, whether Adidas is a much
21 more marketable item than Fila, I can't decide on the market
22 penetration, and I can't make any comparison between what you
23 did with Adidas and what you did with Fila. I am not able to
24 say that the net sales would have exceeded \$850,000 for the
25 initial term and you had no right to a successive term, unless

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1 you exceeded \$850,000 in net sales.

2 Accordingly, I hold that you are not entitled to loss
3 commissions in the renewal period. So your total damage,
4 subject to further working with Ms. Heilman, is \$938,697. When
5 you submit any agreement, I will grant judgment for that
6 amount.

7 So I find that this agreement is the entire agreement
8 of the parties. The arguments in the counterclaims for fraud
9 in the inducement are outside this agreement and not
10 contemplated by this agreement, and that this agreement is the
11 entire agreement between the parties. It has no room for fraud
12 in the inducement.

13 Under this agreement, the termination rights to
14 non-curable breaches are limited and defined that the slowness
15 in production complained of by Fila were curable, at least Kayo
16 had the right to try to cure within the 45-day period provided
17 in the agreement, and that termination without a right to cure
18 under paragraph 15.1, 15.2, and 15.4 was not appropriate and
19 was a breach. Fila has not been able to show that it had good
20 reason for all this treatment of any slowness on the part of
21 Kayo as a non-curable breach under 15.4. And it fails on its
22 burden to show that its actions were reasonable.

23 Moreover, the instances of what is a curable breach
24 set out in seven subparagraphs under 15.2 cover the items sold
25 here. Subparagraph 4, failing to submit the licensor for its

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1 prior approval any product, advertising material, or plan and
2 failure to fulfill any of the material obligations under the
3 agreement.

4 The evidence shows that a full package of materials
5 for the development and sale of the shoes that were a key part
6 of the product was submitted January 10 of 2017, that there
7 were conversations back and forth about it, which were boarded
8 by the notice of termination on February 10, 2017, and whether
9 it was a reflection of what Fila might have thought was a more
10 favorable deal with another company or exasperation with Kayo
11 is not important. What is material is that Kayo had right to a
12 45-day period to cure and it was not given this right.
13 Accordingly, I hold that Fila breached the contract.

14 I had held previously that Kayo was not entitled to
15 lost profits, and I incorporate here my findings and
16 conclusions in that previous decision.

17 I hold that Kayo is entitled to prove its lost
18 commissions on sales directly made by Fila through the three
19 companies mentioned in the agreement, that the total is
20 \$761,411.24 subject to any correction on the part of Fila, at
21 9 percent interest, which is the state rate of interest, is
22 appropriate, again, subject to being shown by Fila that a
23 lesser rate is the correct rate, and that the total of the loss
24 commissions and the interest is \$938,697.

25 I'll give the parties a week to work out any

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1 disagreements, and if there can't be a workout, Kayo should
2 submit a form of judgment giving it the amount I mentioned
3 \$938,697 inclusive of interest. It should break out the
4 principal and the interest.

5 Anything further, Mr. Goodman?

6 MR. GOODMAN: No, your Honor. Thank you very much.

7 THE COURT: Ms. Heilman?

8 MS. HEILMAN: Just in the event that Kayo does not
9 accept our correction, is there a mechanism by which we could
10 raise that with the Court?

11 THE COURT: Yes, the mechanism is my individual rule
12 2.E. Write me a joint letter within that week giving me your
13 respective positions and I will rule upon it and, if necessary,
14 call you for an oral argument to explain the positions.

15 MS. HEILMAN: And that goes both to the commissions
16 and the availability and amount of interest?

17 THE COURT: Yes, everything having to do with damages.

18 I thank you very much. My only observation is that
19 you took upon yourselves much too much work, you need help.

20 I'm returning these books.

21 * * *